

**OWSLEY COUNTY
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2015

Prepared by:

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TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1-3
MANAGEMENT DISCUSSION AND ANALYSIS	4-10
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet-Governmental Funds	13
Reconciliation of the Balance Sheet- Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	18
Statement of Fund Net Position – Proprietary Fund	19
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund	20
Statement of Cash Flows – Proprietary Fund	21
Statement of Fiduciary Net Position – Fiduciary Funds	22
Notes to the Financial Statements	23-45
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of the District’s Proportionate Share of the Net Pension Liability	46
Schedule of Contributions	47
Notes to Required Supplementary Information	48
SUPPLEMENTAL INFORMATION	
Combining Statements – Non-Major Funds and Other:	
Combining Balance Sheet – Nonmajor Governmental Funds	49

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-major Governmental Funds	50
Combining Balance Sheet of Fiduciary Fund – School Activity Funds.....	51
Combining Statement of Revenues, Expenses, and Changes in Fund Balance - School Activity Funds.....	52
Statement of Revenues, Expenses, and Changes in Fund Balance - Owsley County High School.....	53
Notes to the Schedule of Expenditures of Federal Awards.....	54
Schedule of Expenditures of Federal Awards.....	55-56

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>.....	57-58
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INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133.....	59-60
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	61
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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	62
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INDEPENDENT AUDITOR'S REPORT

To the Owsley County Board of Education and
State Committee for School District Audits
Booneville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Owsley County School District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison schedules for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note R to the financial statements, in 2015, the District adopted new accounting guidance, GASB *Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the district's proportionate share of the net pension liability, and schedule of contributions information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The additional supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in

the United States of America. In our opinion, the additional supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White & Associates, PSC

Richmond, Kentucky
November 10, 2015

OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015

As management of the Owsley County School District, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning fund balance for the district was \$758,869 of which \$604,294 was General Fund, \$154,575 was in the restricted funds of Special Revenue, Debt Service, Capital Outlay, Building Fund and Construction Fund. Ending fund balance was \$837,629 of which \$620,314 was General Fund, \$217,315 was in the restricted funds of Special Revenue, Capital Outlay, Building Fund, Construction Fund and Debt Service Fund.
- The ending cash balance was \$59,532 for General Fund.
- The General Fund Revenue totaled \$6,086,596 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures total \$6,135,830 exclusive of inter-fund transfers. These totals include \$1,401,494 of on-behalf payments from the Commonwealth of Kentucky for health insurance, life insurance and Kentucky Teachers’ Retirement contributions.
- The District will continue to attain funding through Promising Neighborhoods and Gear-up Programs. These Programs are Federal grants administered through Berea College. Students will be provided resources to help them overcome barriers, so they can achieve overall success in High School, College, and life.
- Our District continues to look for outside funding sources through grants and other venues as a means of enhancing our efforts toward attaining student proficiency.
- Our District remains committed to educational excellence by keeping teacher salaries comparable to those of surrounding areas and the student-teacher ratio low.
- The General Fund had \$6.08 million in revenues, which primarily consisted of the state program (SEEK), property and motor vehicle taxes, and earned interest income.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Owsley County School District’s basic financial statements. The District’s basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015

District-Wide Financial Statements - The district-wide financial statements are designed to provide readers with a broad overview of the Owsley County School District’s finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Owsley County School District’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Owsley County School District is improving or deteriorating.

The statement of activities presents information showing how the Owsley County School District’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the Owsley County School District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on the table of contents in this report.

Fund Financial Statements- A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is our food service operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements can be found on the table of contents in this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on the table of contents in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets plus deferred outflows were less than liabilities and deferred inflows by approximately \$.382 million as of June 30, 2015. The largest portion of the District’s net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these

OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015

assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District’s financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

2015 District-Wide Governmental Net position compared to 2014 as follows:

Table 1
Net Position (in Millions)

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2014	2015	2014	2015	2014	2015	2013-2014
Assets:							
Current and Other Assets	0.91	1.18	0.19	0.19	1.09	1.37	25%
Capital Assets	4.99	4.57	0.03	0.02	5.02	4.59	-8%
Total Assets	5.90	5.75	0.22	0.22	6.11	5.96	-2%
 Deferred Outflows	 0.08	 0.38	 -	 0.01	 0.08	 0.39	
	0.08	0.38	-	0.01	0.08	0.39	417%
Liabilities:							
Current Liabilities	0.55	0.75	-	-	0.55	0.75	36%
Noncurrent Liabilities	3.27	5.48	-	-	3.27	5.48	67%
Total Liabilities	3.83	6.23	-	-	3.83	6.23	63%
 Deferred Inflows	 -	 0.28	 -	 0.01	 -	 0.29	100%
	-	0.28	-	0.01	-	0.29	100%
 Invested in Capital Assets							
Net of Debt	1.69	1.52	0.03	0.02	1.71	1.54	-10%
Restricted	0.19	0.26	0.19	0.10	0.38	0.36	-5%
Unrestricted Net Position	0.27	(2.16)	-	-	0.27	(2.16)	-898%
Total Net Position	2.15	(0.38)	0.21	0.12	2.36	(0.26)	-111%

OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015

GOVERNMENTAL ACTIVITIES

Ending net position was (\$.26) million for the District. This was a decrease of \$2.6 million including a prior period adjustment from 2014.

Table 2
Changes in Net Position
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2013-2014
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	
Revenues:							
Charges for services	\$ 0.36	\$ -	\$ 0.11	\$ 0.10	\$ 0.46	\$ 0.10	-80%
Operating grants and contributions	2.84	5.34	0.61	0.71	3.45	6.05	75%
Capital grants and contributions	0.41	0.41	-		0.41	0.41	0%
General revenues	5.87	4.95	-		5.87	4.95	-16%
Total revenue	9.48	10.69	0.72	0.81	10.20	11.50	13%
Expenses:							
Instruction	\$ 5.30	\$ 6.29			\$ 5.30	\$ 6.29	19%
Student	0.42	0.37			0.42	0.37	-12%
Instructional staff	0.55	0.68			0.55	0.68	24%
District administration	0.37	0.32			0.37	0.32	-13%
School administration	0.36	0.32			0.36	0.32	-12%
Business	0.34	0.34			0.34	0.34	-1%
Plant operation & maintenance	0.80	0.81			0.80	0.81	1%
Student transportation	0.72	0.62			0.72	0.62	-15%
Food Service Operations	0.02	0.07	0.67	0.77	0.69	0.84	22%
Other instructional	0.01	0.01			0.01	0.01	2%
Community services operations	0.25	0.26			0.25	0.26	5%
Loss on retirement of assets	0.00					-	
Land Improvements					-	-	0%
Amortization	(0.00)	0.01				0.01	
Depreciation	0.51	0.48	0.00	0.00	0.51	0.48	-6%
Interest on long-term debt	0.12	0.13			0.12	0.13	5%
Extraordinary Item	-					-	
Transfers			0.02	0.03			
Total Expenses	\$ 9.75	\$ 10.68	\$ 0.70	\$ 0.81	\$ 10.45	\$ 11.49	10%
Change in net position	\$ (0.28)	\$ 0.01	\$ 0.02	\$ -	\$ (0.26)	\$ 0.01	104%

OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015

CAPITAL ASSETS

At the end of fiscal 2015, the District had \$4.59 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a decrease (including additions and deductions) of \$.42 million over last year.

Capital Assets at Year-End FY2015
(Net of depreciation)

	Governmental Activities		Business Type Activities		Totals	
	2014	2015	2014	2015	2014	2015
Land	216,605	216,605			216,605	216,605
Land and Improvements	14,802	7,940			14,802	7,940
Buildings & Improvements	4,023,140	3,836,151	5,106	4,810	4,028,246	3,840,961
Technology Equipment	130,483	4,026	27,609	27,414	158,093	31,440
Vehicles	443,849	351,906			443,849	351,906
General Equipment	163,457	154,350	(5,782)	(8,546)	157,674	145,804
Construction In Progress	-				-	-

DEBT

Capital lease and general obligation debt decreased \$.18 million from FY 2014.

Outstanding Debt at Year-End
(in Millions)

		Government Activities	
		2014	2015
Capital Lease Obligations	\$	0.36	\$ 0.30
General Obligation Bonds		3.02	2.76
KSBIT			0.15
Total Obligations	\$	<u>3.38</u>	<u>\$ 3.20</u>

**OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

THE DISTRICT’S FUNDS

As the District completed the year, the General Fund reflected a fund balance of \$620,314, which is more than last year’s fund balance of \$604,294. The unassigned portion of the fund balance at the end of fiscal year 2015 is \$576,836, compared to \$566,958 from the preceding year.

The following table presents a summary of revenue and expense for the District as a whole for the fiscal year ended June 30, 2015:

REVENUE	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Local Revenue Sources	634,306			62,496			95,293
State Revenue Sources	5,133,547	403,291	65,892	184,271		103,545	111,992
Federal Revenue Sources	17,541	2,868,772				56,300	598,327
Other	301,202	202,527				17,306	92
Transfers	77,001	11,747				262,386	
TOTALS	6,163,597	3,486,338	65,892	246,767	-	439,536	805,704
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Instruction	3,216,010	2,491,378					
Student Support Services	230,034	142,779					
Instructional Staff Support Services	183,896	491,214					
District Admin Support	327,961						
School Admin Support	321,617						
Business Support Services	319,703	10,374					
Plant Operation & Management	800,378	73,204					
Student Transportation	591,520	16,966					
Food Service Operations	67,695						776,895
Community Services		254,984					
Debt Service	77,014					379,095	
Site Improvement							
Building Renovations							
Other Items		5,440					
Transfers	11,747		65,892	244,468			29,027
TOTALS	6,147,577	3,486,338	65,892	244,468	-	379,095	805,922
Excess / (Deficit)	16,020	0	-	2,299	-	60,441	(218)

*Note This chart does not include beginning balances.

**OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

Comments on Budget Comparisons

- The District’s total general fund revenues for the fiscal year ended June 30, 2015 net of other financing sources and uses, were \$6.09 million including “On-Behalf” payments.
- General fund budget compared to actual revenue varied slightly from line item to line item.
- The total cost of all general fund programs and services was \$6.2 million including transfers.
- General fund budget expenditures to actual were \$208,031 less than budget.

BUDGETARY IMPLICATIONS

By law, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2015-2016 with a 3% general fund contingency.

Issues which will impact future budgets include:

- Increased expenses to meet federal and state academic mandates.
- Continued Insufficient funding of the state transportation formula.

Questions regarding this report should be directed to the Finance Officer, Jerry McIntosh or Superintendent, Dr. Tim Bobrowski. at (606) 593-6363 or by mail at Owsley County Board of Education, 14 Old Hwy 11, Booneville, Kentucky 41314.

Owsley County School District
Statement of Net Position
June 30, 2015

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 141,453	\$ 141,453
Investments	713,287		713,287
Receivables (net)	661,959	24,447	686,406
Inventories		26,389	26,389
Capital assets:			
Land, improvements, and construction in progress	216,605		216,605
Other capital assets, net of depreciation	4,354,374	23,678	4,378,052
Total capital assets	4,570,979	23,678	4,594,657
Total assets	5,946,226	215,967	6,162,193
DEFERRED OUTFLOWS OF RESOURCES			
District pension contributions subsequent to the measurement date	316,298	9,758	326,056
Deferred savings from refunding bonds	64,752		64,752
Total deferred outflows of resources	381,050	9,758	390,809
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	6,327,276	225,725	6,553,001
LIABILITIES			
Accrued interest payable	21,196		21,196
Cash shortage	494,257		494,257
Unearned revenue	85,810		85,810
Long-term liabilities:			
Due within 1 year:			
Bond obligations	270,000		270,000
Capital lease obligations	67,601		67,601
KSBIT payable	11,632		11,632
Total due within 1 year	349,233	-	349,233
Due in more than 1 year:			
Bond obligations	2,485,000		2,485,000
Capital lease obligations	228,108		228,108
KSBIT payable	137,396		137,396
Net pension liability	2,537,657	92,343	2,630,000
Sick leave	86,955		86,955
Total due in more than 1 year	5,475,116	92,343	5,567,459
Total liabilities	6,425,612	92,343	6,517,955
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual earnings on pension plan investments	283,677	10,323	294,000
NET POSITION			
Net Investment in capital assets	1,520,270	23,678	1,543,948
Restricted for:			
Debt Service	202,099		202,099
Capital Projects	15,217		15,217
Other	43,478		43,478
Food Services		99,381	99,381
Deficit	(2,163,077)		(2,163,077)
Total net position	(382,013)	123,059	(258,954)
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 6,327,276	\$ 225,725	\$ 6,553,001

See the accompanying notes to the financial statements.

Owsley County School District
Statement of Activities
Year Ended June 30, 2015

		Program Revenues				Net (Expense) Revenue and Changes in Net Position		
						Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
PRIMARY GOVERNMENT:								
Governmental activities:								
Instruction	\$ 6,285,221	\$ -	\$ 3,448,099	\$ -	\$ (2,837,122)		\$ (2,837,122)	
Support services								
Student	368,576		183,960		(184,616)		(184,616)	
Instructional staff	675,357		337,078		(338,279)		(338,279)	
District administration	323,975		161,699		(162,276)		(162,276)	
School administration	315,764		157,601		(158,163)		(158,163)	
Business	335,451		167,427		(168,024)		(168,024)	
Plant operation & maintenance	813,339		405,946	250,163	(157,230)		(157,230)	
Student transportation	616,881		307,892		(308,989)		(308,989)	
Food services	67,724		33,802		(33,922)		(33,922)	
Other instructional	5,440		2,715		(2,725)		(2,725)	
Community services operations	260,402		129,969		(130,432)		(130,432)	
Loss on retirement of assets	920				(920)		(920)	
Amortization	10,804				(10,804)		(10,804)	
Depreciation	480,647				(480,647)		(480,647)	
Interest on general long-term debt	130,891			159,845	28,953		28,953	
Total governmental activities	10,691,393	-	5,336,191	410,008	(4,945,194)		(4,945,194)	
Business-type activities:								
Food service operations	773,640	95,293	710,319			\$ 31,971	31,971	
Depreciation	3,255					(3,255)	(3,255)	
Total business-type activities	776,895	95,293	710,319	-	-	28,716	28,716	
Total primary government	\$ 11,468,288	\$ 95,293	\$ 6,046,510	\$ 410,008	(4,945,194)	28,716	(4,916,478)	
General revenues:								
Taxes:								
Property taxes					370,020		370,020	
Motor vehicle taxes					90,568		90,568	
Utility taxes					219,116		219,116	
Unmined minerals tax					17,098		17,098	
State and formula grants					3,699,510		3,699,510	
Unrestricted investment earnings					24,034	92	24,126	
Other local revenue					497,001		497,001	
Operating transfers					29,027	(29,027)	-	
Total general revenues and operating transfers					4,946,374	(28,934)	4,917,439	
Change in net position					1,179	(218)	961	
Net position - beginning					2,146,720	215,434	2,362,154	
Prior period adjustment					2,618		2,618	
Prior period adjustment					(2,532,530)	(92,157)	(2,624,687)	
Restated net position - beginning					(383,192)	123,277	(259,915)	
Net position - ending					\$ (382,013)	\$ 123,059	\$ (258,954)	

See the accompanying notes to the financial statements.

Owsley County School District
Balance Sheet
Governmental Funds
June 30, 2015

	Governmental Funds				
	General	Special Revenue	Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 59,532	\$ -	\$ 2,618	\$ 15,217	\$ 77,367
Investments	513,806		199,481		713,287
Receivables, net					
Taxes-current	12,803				12,803
Accounts	34,172	77,313			111,485
Intergovernmental-state		549			549
Intergovernmental-federal		537,122			537,122
Total assets	<u>620,314</u>	<u>614,984</u>	<u>202,099</u>	<u>15,217</u>	<u>1,452,613</u>
LIABILITIES					
Cash shortage		571,624			571,624
Unearned revenue		43,360			43,360
Total liabilities	<u>-</u>	<u>614,984</u>	<u>-</u>	<u>-</u>	<u>614,984</u>
FUND BALANCE					
Restricted			202,099	15,217	217,316
Committed	43,478				43,478
Unassigned	576,836				576,836
Total fund balance	<u>620,314</u>	<u>-</u>	<u>202,099</u>	<u>15,217</u>	<u>837,629</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 620,314</u>	<u>\$ 614,984</u>	<u>\$ 202,099</u>	<u>\$ 15,217</u>	<u>\$ 1,452,613</u>

See the accompanying notes to the financial statements.

Owsley County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2015

Fund balances-total governmental funds	\$ 837,629
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	4,570,979
Accounts receivable from delinquent property taxes are not recorded in the fund financial statements because they are not available for use (received within 60 days). These receivables are accrued on the statement of net position because they have been earned and are measurable	
Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus	22,302
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest payable, other accounts payable, and net pension obligations) are not due and payable in the current period and, therefore, are not reported in the funds	
Accrued interest payable	(21,196)
Bonds payable	(3,050,709)
KSBIT payable	(149,028)
Sick leave liability	(86,955)
Net pension liability	(2,537,657)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds	
Deferred outflows of resources related to employer 2015 contributions to pensions	316,298
Deferred inflows of resources related to pensions	<u>(283,677)</u>
Net position of governmental activities	\$ <u><u>(382,013)</u></u>

See the accompanying notes to the financial statements.

Owsley County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2015

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
From Local Sources					
Taxes					
Property	\$ 307,524	\$ -	\$ -	\$ 62,496	\$ 370,020
Motor vehicle	90,568				90,568
Unmined minerals	17,098				17,098
Utilities	219,116				219,116
Earnings on investments	6,728		17,306		24,034
Other local revenue	294,474	202,527			497,001
Intergovernmental - state	5,133,547	403,291	103,545	250,163	5,890,546
Intergovernmental - federal	17,541	2,868,772	56,300		2,942,614
Total revenues	<u>6,086,596</u>	<u>3,474,591</u>	<u>177,150</u>	<u>312,659</u>	<u>10,050,996</u>
EXPENDITURES					
Instruction	3,216,010	2,491,378			5,707,388
Support services					
Student	230,034	142,779			372,813
Instructional dtaff	183,896	491,214			675,110
District sdministration	327,961				327,961
School sdministration	321,617				321,617
Business	319,703	10,374			330,077
Plant operation & maintenance	800,378	73,204			873,582
Student transportation	591,520	16,966			608,486
Food service operation	67,695				67,695
Community services operations		254,984			254,984
Other instructional		5,440			5,440
Debt service	77,014		379,095		456,109
Total expenditures	<u>6,135,830</u>	<u>3,486,338</u>	<u>379,095</u>	<u>-</u>	<u>10,001,263</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(49,234)	(11,747)	(201,945)	312,659	49,733
OTHER FINANCING SOURCES (USES)					
Operating transfers in	77,001	11,747	262,386		351,134
Operating transfers (out)	(11,747)			(310,360)	(322,107)
Total other financing sources and (uses)	<u>65,254</u>	<u>11,747</u>	<u>262,386</u>	<u>(310,360)</u>	<u>29,027</u>
NET CHANGE IN FUND BALANCE	16,020	-	60,441	2,299	78,760
FUND BALANCE-BEGINNING	604,294	-	139,040	12,918	756,252
PRIOR PERIOD ADJUSTMENT			2,618		2,618
RESTATED FUND BALANCE-BEGINNING	<u>604,294</u>	<u>-</u>	<u>141,657</u>	<u>12,918</u>	<u>758,869</u>
FUND BALANCE-ENDING	<u>\$ 620,314</u>	<u>\$ -</u>	<u>\$ 202,099</u>	<u>\$ 15,217</u>	<u>\$ 837,629</u>

See the accompanying notes to the financial statements.

Owsley County School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities**
 Year ended June 30, 2015

Net change in fund balances-total governmental funds	\$ 78,760
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	
District pension contributions less costs of benefits earned net employee contributions	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	(421,356)
Accounts receivable from delinquent property taxes are not recorded in the fund financial statements because they are not available for use (received within 60 days). These receivables are accrued on the statement of net position because they have been earned and are measurable.	
The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue.	
	3,346
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.	
	330,806
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	
Accrued interest payable	(5,588)
Net pension liability	27,494
Noncurrent sick leave payable	(12,283)
	<hr/>
Change in net position of governmental activities	\$ <u>1,179</u>

See the accompanying notes to the financial statements.

Owsley County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
From Local Sources				
Taxes				
Property	\$ 330,000	\$ 364,984	\$ 307,524	\$ (57,459)
Motor vehicle	78,000	78,000	90,568	12,568
Unmined minerals	22,000	22,000	17,098	(4,902)
Utilities	190,000	190,000	219,116	29,116
Earnings on investments	9,000	9,000	6,728	(2,272)
Other local revenue	154,577	154,577	294,474	139,897
Intergovernmental - state	5,189,834	5,112,509	5,133,547	21,038
Intergovernmental - federal	6,248	6,248	17,541	11,293
Total revenues	<u>5,979,659</u>	<u>5,937,318</u>	<u>6,086,596</u>	<u>149,279</u>
EXPENDITURES				
Instruction	3,150,859	3,147,859	3,216,010	(68,151)
Support services			-	
Student	265,141	265,141	230,034	35,107
Instructional staff	213,009	213,009	183,896	29,113
District administration	356,563	356,563	327,961	28,602
School administration	411,868	411,868	321,617	90,251
Business	257,985	257,985	319,703	(61,718)
Plant operation & maintenance	813,630	788,630	800,378	(11,748)
Student transportation	806,504	804,504	591,520	212,984
Food service operations	19,288	19,288	67,695	(48,407)
Land/site acquisitions	2,000	1,000	-	1,000
Land improvements	4,000	1,000	-	1,000
Debt service	77,014	77,014	77,014	(0)
Total expenditures	<u>6,377,861</u>	<u>6,343,861</u>	<u>6,135,830</u>	<u>208,031</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(398,202)	(406,543)	(49,234)	357,309
OTHER FINANCING SOURCES (USES)				
Sale of equipment	1,500	1,500		(1,500)
Operating transfers in	20,000	20,000	77,001	57,001
Operating transfers (out)	<u>(11,747)</u>	<u>(11,747)</u>	<u>(11,747)</u>	<u>-</u>
Total other financing sources and (uses)	<u>9,753</u>	<u>9,753</u>	<u>65,254</u>	<u>55,501</u>
NET CHANGE IN FUND BALANCE	(388,449)	(396,790)	16,020	412,810
FUND BALANCE-BEGINNING	<u>590,000</u>	<u>555,016</u>	<u>604,294</u>	<u>49,278</u>
FUND BALANCE-ENDING	\$ <u>201,551</u>	\$ <u>158,226</u>	\$ <u>620,314</u>	\$ <u>462,088</u>

See the accompanying notes to the financial statements.

Owsley County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
From Local Sources				
Other local revenue	\$ 155,317	\$ 209,522	\$ 202,527	\$ (6,995)
Intergovernmental - state	384,450	435,626	403,291	(32,335)
Intergovernmental - federal	1,459,181	2,702,707	2,868,772	166,065
Total revenues	<u>1,998,948</u>	<u>3,347,855</u>	<u>3,474,591</u>	<u>126,735</u>
EXPENDITURES				
Instruction	1,304,106	2,393,374	2,491,378	(98,004)
Support Services				
Student	154,165	140,795	142,779	(1,984)
Instructional Staff	367,087	458,035	491,214	(33,179)
Business	9,666	9,666	10,374	(708)
Plant Operation & Maintenance	18,625	71,518	73,204	(1,686)
Student Transportation	4,500	16,436	16,966	(530)
Community Services Operations	147,085	264,317	254,984	9,334
Other Instructional	5,461	5,461	5,440	21
Total expenditures	<u>2,010,695</u>	<u>3,359,602</u>	<u>3,486,338</u>	<u>(126,735)</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(11,747)	(11,747)	(11,747)	-
OTHER FINANCING SOURCES (USES)				
Operating transfers in	11,747	11,747	11,747	-
Operating transfers out				-
Total other financing sources and (uses)	<u>11,747</u>	<u>11,747</u>	<u>11,747</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE-BEGINNING	-	-	-	-
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Owlsey County School District
Statement of Fund Net Position
Proprietary Fund
June 30, 2015

	School Food Services
ASSETS	
Cash and cash equivalents	\$ 141,453
Inventories	26,389
Accounts receivable, net	24,447
Capital assets:	
Other capital assets, net of depreciation	23,678
Total assets	<u>215,967</u>
DEFERRED OUTFLOWS OF RESOURCES	
District pension contributions subsequent to the measurement date	<u>9,758</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>225,725</u></u>
LIABILITIES	
Net pension liability	92,343
DEFERRED INFLOWS OF RESOURCES	
Net difference between projected and actual earnings on pension plan investments	10,323
NET POSITION	
Net Investment in capital assets	23,678
Restricted for:	
Expendable Restricted for Food Service	99,381
Total net position	<u>123,059</u>
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 225,725</u></u>

See the accompanying notes to the financial statements.

Owsley County School District
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Year Ended June 30, 2015

	<u>Enterprise Funds</u>
	<u>School Food Services</u>
OPERATING REVENUES	
Lunchroom sales	\$ 95,293
Total operating revenues	<u>95,293</u>
OPERATING EXPENSES	
Depreciation	3,255
Food service operations	
Employee services	245,693
Operational expense	<u>527,947</u>
Total operating expenses	<u>776,895</u>
Operating income (loss)	<u>(681,603)</u>
NONOPERATING REVENUES (EXPENSES)	
Federal grants	598,327
State grants	111,992
Transfers	(29,027)
Earnings from investments	<u>92</u>
Total nonoperating revenues	<u>681,384</u>
CHANGE IN NET POSITION	(218)
NET POSITION-BEGINNING	215,434
PRIOR PERIOD ADJUSTMENT	<u>(92,157)</u>
RESTATED NET POSITION-BEGINNING	<u>123,277</u>
NET POSITION-ENDING	\$ <u><u>123,059</u></u>

See the accompanying notes to the financial statements.

Owsley County School District
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2015

Enterprise Funds

**School
Food
Services**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 95,293
Payments to suppliers	(540,733)
Payments to employees	(245,693)
Net cash provided (used) by operating activities	<u>(691,134)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Indirect cost transfer	(29,027)
Operating grants and contributions	710,319
Net cash provided (used) by noncapital financing activities	<u>681,292</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest	92
Net cash provided (used) by investing activities	<u>92</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

(9,749)

CASH AND CASH EQUIVALENTS-BEGINNING

151,202

CASH AND CASH EQUIVALENTS-ENDING

\$ 141,453

**Reconciliation of operating income (loss) to net cash used
by operating activities:**

Operating income (loss)	\$ (681,603)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	3,255
Changes in assets and liabilities:	
Receivables	(11,908)
Net pension liability	751
Inventories	(1,629)
Net cash used by operating activities	<u><u>\$ (691,134)</u></u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$31,563 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$107,000 provided by state government.

See the accompanying notes to the financial statements.

Owsley County School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	SCHOOL ACTIVITY FUNDS
	<hr/>
ASSETS	
Cash and cash equivalents	\$ 108,054
Investments	28,672
Accounts Receivable	<hr/> 3,089
Total Assets	<hr/> <hr/> 139,815
LIABILITIES	
Accounts payable	5,334
Due to student groups	<hr/> 134,481
Total Liabilities	<hr/> <hr/> 139,815
NET POSITION HELD IN TRUST	<hr/> \$ - <hr/> <hr/>

See the accompanying notes to the financial statements.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Owsley County Board of Education (“Board”), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Owsley County Board of Education (“District”). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100-Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the Owsley County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Blended Component Unit

Owsley County Board Of Education Finance Corporation

The Board authorized establishment of the Owsley County Board Of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Owsley County Board of Education.

Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

(B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

(C) Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

SEEK Capital Outlay Fund

The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects as identified in the District's facility plan.

Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling.

(D) Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Funds (Enterprise Funds)

Food Service Fund

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds.

III. Fiduciary Fund Types

Agency Funds

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with "Accounting Procedures for Kentucky School Activity Funds."

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Unearned revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement the revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing.

The property tax rates assessed for the year ended June 30, 2015, to finance the General Fund operations were \$.457 (including exonerations) per \$100 valuation of real property, \$.457 per \$100 valuation for business personal property and \$.578 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the government funds. These assets are reported in the government activities column of the government-wide financial statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as “inter-fund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets. The Special Revenue Fund had overall expenditures in excess of appropriations of \$126,735.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expended when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

Prepaid Assets

Payments made that will benefit periods beyond the fiscal period end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgment, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose; unassigned amounts are reported only in the General Fund unless a fund has a deficit.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds.

Net Position

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position. Net Position is reported in three categories: 1) net investment in capital assets – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or net investment in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teachers Retirement System of the State of Kentucky ("KTRS") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Estimates

The process of preparing financial statements in conformity accounting principles generally accepted in the United States of America requires District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenditures, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

New Accounting Pronouncements

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

NOTE B – CASH AND CASH EQUIVALENTS AND INVESTMENTS

The District's cash and cash equivalents of amounts deposited in checking accounts include interest bearing accounts deposited in various local banks. Due to the liquidity nature of these accounts the carrying value is the fair market value.

Investments are CD's deposited with various local banks that have a maturity date longer than ninety (90) days.

		Bank Balance		
		<u>Demand</u>	<u>Time</u>	<u>Totals</u>
<u>Farmers State Bank</u>				
FDIC	\$	250,000	\$ -	\$ 250,000
Securities pledged to district		217,666	542,478	760,144
Bank balance	\$	467,666	\$ 542,478	\$ 1,010,144
		Book Balance		
		<u>Cash equivalents</u>	<u>Investments</u>	
Governmental Activities	\$	(494,257)	\$ 713,287	
Business-type Activities		141,453	-	
School Activity Funds		108,054	28,672	
Total carrying amount	\$	(244,750)	\$ 741,959	

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK/Building) Fund, special Revenue (Grant Fund), Debt Service Fund, School Construction Fund, School Food Service Fund, and School Activity Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE C – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

<u>Governmental Activities</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
Land	\$ 216,605	\$ -	\$ -	\$ 216,605
Land improvements	157,923	-	-	157,923
Buildings	8,482,734	60,210	-	8,542,944
Technology equipment	1,931,585	-	-	1,931,585
Vehicles	1,968,834	-	920	1,967,914
General equipment	424,001	-	-	424,001
Construction in progress	-	-	-	-
Total at historical cost	<u>\$ 13,181,682</u>	<u>\$ 60,210</u>	<u>\$ 920</u>	<u>\$ 13,240,973</u>
Less: Accumulated depreciation				
Land improvements	\$ 143,121	\$ 6,862	\$ -	\$ 149,983
Buildings	4,459,594	247,199	-	4,706,793
Technology equipment	1,801,102	126,457	-	1,927,559
Vehicles	1,524,985	91,022	-	1,616,008
General equipment	260,544	9,107	-	269,651
Total accumulated depreciation	<u>\$ 8,189,347</u>	<u>\$ 480,647</u>	<u>\$ -</u>	<u>\$ 8,669,993</u>
Governmental Activities Capital Assets-net	<u>\$ 4,992,336</u>	<u>\$ (420,436)</u>	<u>\$ 920</u>	<u>\$ 4,570,979</u>
<u>Business-Type Activities</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
Buildings and Improvements	\$ 7,400	\$ -	\$ -	\$ 7,400
Technology equipment	103,156	-	-	103,156
General equipment	196,181	-	-	196,181
Total at historical cost	<u>\$ 306,737</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 306,737</u>
Less: Accumulated depreciation				
Buildings and Improvements	\$ 2,294	\$ 296	\$ -	\$ 2,590
Technology equipment	75,547	196	-	75,742
General equipment	201,963	2,763	-	204,727
Total accumulated depreciation	<u>\$ 279,804</u>	<u>\$ 3,255</u>	<u>\$ -</u>	<u>\$ 283,059</u>
Business-Type Activities Capital Assets-net	<u>\$ 26,933</u>	<u>\$ (3,255)</u>	<u>\$ -</u>	<u>\$ 23,678</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

NOTE D – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Owsley County School District Finance Corporation aggregating \$2,755,000 and \$270,000 is the portion due within one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Owsley County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The original amount of outstanding issues, the issue dates, interest rates, and outstanding balances, at June 30, 2015 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2014 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2015 Outstanding Balance</u>
2004	\$ 445,000	10/1/2023	2.75 - 4.50%	\$ 10,000	\$ -	\$ 10,000	\$ -
2007	755,000	6/1/2027	3.9 - 4.3%	550,000	-	35,000	515,000
2010R	695,000	2/1/2021	.75 - 2.55%	455,000	-	60,000	395,000
2010	1,000,000	12/1/2027	6.125%	1,000,000	-	-	1,000,000
2012R	\$ 1,340,000	10/1/2024	1.0 - 2.375%	1,005,000	-	160,000	845,000
Totals				<u>\$ 3,020,000</u>	<u>\$ -</u>	<u>\$ 265,000</u>	<u>\$ 2,755,000</u>

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2015 for debt service, (principal and interest) are as follows:

	<u>LOCAL</u>		<u>KSFCC</u>		<u>Federal Rebate</u>	<u>PRINCIPAL TOTAL</u>	<u>INTEREST TOTAL</u>
<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>INTEREST</u>		
2016	\$ 224,535	\$ 25,233	\$ 45,465	\$ 83,132	\$ (56,300)	\$ 270,000	\$ 52,065
2017	228,016	20,552	46,984	81,613	(56,300)	\$ 275,000	45,865
2018	231,397	15,806	48,603	79,994	(56,300)	\$ 280,000	39,500
2019	99,635	12,449	50,365	78,234	(56,300)	\$ 150,000	34,383
2020	102,769	10,032	52,231	76,366	(56,300)	\$ 155,000	30,098
2021-2025	304,902	19,776	220,098	353,791	(281,500)	\$ 525,000	92,068
2026-2028	1,005,962	342	94,038	159,233	(140,750)	\$ 1,100,000	18,825
	<u>\$ 2,197,216</u>	<u>\$ 104,190</u>	<u>\$ 557,784</u>	<u>\$ 912,363</u>	<u>\$ (703,750)</u>	<u>\$ 2,755,000</u>	<u>\$ 312,803</u>

A qualified zone academy bond (QZAB) was issued in 2003 in the amount of \$500,000 to be used for construction. The bond required an initial payment of \$287,750 which retired the bond. The difference of \$212,250 was recorded as unearned revenue. Over the 15 year life of the bond, \$14,150 will be

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

recorded as revenue per year to reduce unearned revenue to zero over the life of the bond. At June 30, 2015, there was \$42,450 remaining in unearned revenue for the QZAB bond.

The 2010 issued bond is a QZAB bond that requires payments to an escrow fund that will draw interest and retire the bond December 1, 2027. The District had accumulated \$199,481 in the escrow fund as of June 30, 2015.

NOTE E – CAPITAL LEASE PAYABLE

The following is an analysis of the leased property under capital lease:

<u>KISTA Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2014 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2015 Outstanding Balance</u>
2006 KISTA	\$ 65,103	3/1/2016	3.3 - 4.0%	\$ 12,373	\$ -	\$ 6,065.00	\$ 6,308
2008 KISTA	153,110	3/1/2018	3.0 - 3.75%	61,793	-	16,001	45,792
2009 KISTA	158,239	3/1/2019	2.0 - 3.9%	79,032	-	15,993	63,039
2011 KISTA	190,065	3/1/2021	1.0 - 4.0%	130,639	-	18,315	112,324
2012 KISTA	\$ 99,782	3/1/2022	2.0 - 2.625%	77,678	-	9,432	68,246
				<u>\$ 361,515</u>	<u>\$ -</u>	<u>\$ 65,806</u>	<u>\$ 295,709</u>

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2015:

<u>Fiscal Year Ended</u>	<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$	67,601	\$ 9,349	\$ 76,950
2017		60,222	7,298	67,520
2018		58,984	5,452	64,436
2019		45,462	3,550	49,012
2020		27,575	2,052	29,627
2021-2022		35,865	1,416	37,281
	<u>\$</u>	<u>295,709</u>	<u>\$ 29,115</u>	<u>\$ 324,824</u>
Total minimum lease payments				\$ 324,824
Less: Amount representing interest				(29,115)
Present Value of Net Minimum Lease Payments				\$ 295,709

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE F – OTHER LONG TERM OBLIGATIONS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. The activity during fiscal year 2015 for accumulated sick leave is as follows:

	2014 Outstanding <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	2015 Outstanding <u>Balance</u>
Sick Leave	\$ 74,672	\$ 12,283	\$ -	\$ 86,955
Totals	<u>\$ 74,672</u>	<u>\$ 12,283</u>	<u>\$ -</u>	<u>\$ 86,955</u>

The District elected to finance the worker's compensation insurance deficit (KSBIT) with the now defunct Kentucky School Board Insurance Trust through the Kentucky Interlocal School Transportation Association (KISTA). The activity during fiscal year 2015 for the worker's compensation deficit is as follows:

<u>KISTA Issues</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	2014 KISTA <u>Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	2015 KISTA <u>Outstanding</u>
KSBIT	\$ 149,028	8/1/2024	2.0 - 3.25%	\$ -	\$ 149,028	\$ -	\$ 149,028

The minimum payments are as follows:

Fiscal Year Ended <u>June 30th</u>	Local <u>Principal</u>	<u>Interest</u>	Total <u>Payments</u>
2016	\$ 11,632	\$ 5,417	\$ 17,049
2017	13,832	3,520	17,352
2018	14,112	3,240	17,352
2019	14,407	2,944	17,351
2020	14,721	2,631	17,352
2021-2024	<u>80,324</u>	<u>6,436</u>	<u>86,760</u>
	<u>\$ 149,028</u>	<u>\$ 24,190</u>	<u>\$ 173,218</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE G – RETIREMENT PLANS

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
	Reduced retirement	Not available
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Contributions—Required contributions by the employee are based on the tier:

		<u>Required contribution</u>
Tier	1	5%
Tier	2	5% + 1% for insurance
Tier	3	5% + 1% for insurance

General information about the Teachers' Retirement System of the State of Kentucky ("KTRS")

Plan description—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided—For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan description—In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of CERS net pension liability	\$	2,630,000
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Commonwealth's proportionate share of the KTRS net pension

liability associated with the district		<u>23,525,024</u>
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	\$	<u><u>26,155,024</u></u>
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The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District's proportion was .081066% (percent).

For the year ended June 30, 2015, the District recognized pension expense of \$299,313 related to CERS and \$2,106,893 related to KTRS. The District also recognized revenue of \$2,106,893 for KTRS support provided by the Commonwealth. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual		
experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual		
earnings on pension plan investments	-	294,000
Changes in proportion and differences		
between District contributions and proportionate		
share of contributions	-	-
District contributions subsequent to the		
measurement date	<u>326,056</u>	<u>-</u>
	\$ <u><u>326,056</u></u>	\$ <u><u>294,000</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$326,056 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	<u>Year Ended June 30,</u>
2016	\$ 65,211
2017	65,211
2018	65,211
2019	65,211
2020	<u>65,211</u>
	 \$ <u><u>326,056</u></u>

Actuarial assumptions—The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.75%	7.50%

For CERS, mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For KTRS, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	100.0%	

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	2,969,449	2,630,000	2,290,718
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	-	-	-

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

NOTE H – COMMITMENTS

The District has committed \$43,478 in the general fund for future payouts for accrued sick leave.

NOTE I – RESTRICTED BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Debt Service	\$ 202,099	Escrow for 2010 QZAB Bond
FSPK	15,217	School Facilities Construction Commission
Food Service	\$ 99,381	Food Service Operations

NOTE J – CONTINGENCIES

The District receives funding from Federal, State and Local governmental agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and un-reimbursed disbursements, if any, is not expected to be

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction the funds provided are being spent as intended and the grantors' intent to continue their program.

NOTE K – LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time.

NOTE L – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, illegal acts, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated and includes Workers' Compensation insurance.

NOTE M – RISK MANAGEMENT

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers' compensation, errors and omission, and general liability coverage, the District purchased commercial insurance policies.

The District purchases unemployment insurance through the Kentucky School Districts Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

NOTE N – DEFICIT FUND AND OPERATING BALANCES

The following fund had an operating deficit at the end of the fiscal year causing a reduction in the fund balance/net position.

<u>Fund</u>	<u>Reduction in Fund Balance / Net Position</u>
Business Type Activities	\$ (218)

NOTE O - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE P – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
Operating	Capital Outlay Fund	General Fund	\$ 47,974	Operating Expenditures
Operating	General Fund	Special Revenue Fund	11,747	KETS
Operating	Food Service Fund	General Fund	29,027	Indirect Costs
Debt Service	Capital Outlay Fund	Debt Service Fund	17,918	Debt Payments
Debt Service	FSPK Fund	Debt Service Fund	\$ 244,468	Debt Payments

NOTE Q – ON-BEHALF PAYMENTS

For fiscal year 2015, the Commonwealth of Kentucky contributed estimated payments on behalf of the District as follows:

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System (GASB 68 Schedule A)	\$ 554,375
Health Insurance	1,133,492
Life Insurance	2,032
Administrative Fee	13,958
HRA/Dental/Vision	31,325
Federal Reimbursements	(282,222)
Technology	55,534
SFCC Debt Service Payments	<u>103,545</u>
Total	\$ <u>1,612,038</u>

These amounts are included in the financial statements as state revenue and an expense allocated to the different functions in the same proportion as full-time employees.

NOTE R - CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$2,624,687 reduction in beginning net position on the Statement of Activities and an increase of \$351,313 of deferred outflows of resources – District contributions subsequent to the measurement date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE S – PRIOR PERIOD ADJUSTMENT

Due to a cash account not being reported in the debt service fund and GASB 68 in the prior year the overall beginning net position was understated as follows:

Net Position July 1, 2014	\$2,362,154
Prior Period Adjustment 2 (See Note R)	(2,624,687)
Prior Period Adjustment 1	2,618
Restated Net Position July 1, 2014	<u>(259,915)</u>

Due to a cash account not being reported in the debt service fund in the prior year the beginning fund balance was understated as follows:

Fund Balance July 1, 2014	\$ 139,040
Prior Period Adjustment	2,618
Restated Fund Balance July 1, 2014	<u>\$ 141,658</u>

NOTE T – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 10, 2015, the date the financial statements were available to be issued.

OWSLEY COUNTY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	Reporting Fiscal Year (Measurement Date) 2015 (2014)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:	
Districts' proportion of the net pension liability	0.8107%
District's proportionate share of the net pension liability	\$ 2,630,000
State's proportionate share of the net pension liability associated with the District	-
Total	<u>\$ 2,630,000</u>
District's covered-employee payroll	\$ 1,868,725
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	140.74%
Plan fiduciary net position as a percentage of the total pension liability	66.80%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:	
Districts' proportion of the net pension liability	0.115%
District's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the District	<u>23,525,024</u>
Total	<u>\$ 23,525,024</u>
District's covered-employee payroll	\$ -
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the accompanying notes to the required supplementary information.

**OWSLEY COUNTY SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS**

	<u>2015</u>	<u>2014</u>
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ 326,056	\$ 353,002
Contributions in relation to the contractually required contribution	<u>326,056</u>	<u>353,002</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 1,837,021	\$ 1,868,725
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	17.67%	18.89%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ -	\$ -
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the accompanying notes to the required supplementary information.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the year ended June 30, 2015

Changes of benefit terms – None

Changes of assumptions – None

Owsley County School District
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2015

Other Governmental Funds			
	Capital Outlay	FSPK	Total
Assets			
Cash and Cash Equivalents	\$ -	\$ 15,217	\$ 15,217
Total Assets	-	15,217	15,217
Fund Balances			
Restricted		15,217	15,217
Total Fund Balances	\$ -	\$ 15,217	\$ 15,217

See the accompanying notes to the financial statements.

Owsley County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2015

	Other Governmental Funds		
	Capital Outlay	FSPK	Total
Revenues			
From Local Sources			
Taxes			
Property	\$ -	\$ 62,496	\$ 62,496
Intergovernmental - State	65,892	184,271	250,163
Total Revenues	65,892	246,767	312,659
Expenditures			
Building Acquisitions & Construction			-
Total Expenditures	-	-	-
Excess (Deficit) of Revenues Over Expenditures	65,892	246,767	312,659
Other Financing Sources (Uses)			
Transfers Out	(65,892)	(244,468)	(310,360)
Total Other Financing Sources (Uses)	(65,892)	(244,468)	(310,360)
Net change in fund balances	-	2,299	2,299
Fund Balance beginning	-	12,918	12,918
Fund Balance ending	\$ -	\$ 15,217	\$ 15,217

See the accompanying notes to the financial statements.

Owsley County School District
Combining Balance Sheet of Fiduciary Fund - School Activity Funds
June 30, 2015

	SCHOOL ACTIVITY FUND		
	<u>OWSLEY COUNTY HIGH SCHOOL</u>	<u>OWSLEY COUNTY ELEMENTARY</u>	<u>TOTAL</u>
ASSETS			
Cash and cash equivalents	\$ 80,719	\$ 27,335	\$ 108,054
Investments	28,672		28,672
Accounts receivable	<u>1,383</u>	<u>1,706</u>	<u>3,089</u>
Total Assets	<u><u>110,774</u></u>	<u><u>29,041</u></u>	<u><u>139,815</u></u>
LIABILITIES			
Accounts payable	<u>5,117</u>	<u>217</u>	<u>5,334</u>
Total Liabilities	<u><u>5,117</u></u>	<u><u>217</u></u>	<u><u>5,334</u></u>
FUND BALANCE			
Student activities	<u>105,657</u>	<u>28,824</u>	<u>134,481</u>
Total Liabilities & Fund Balances	\$ <u><u>110,774</u></u>	\$ <u><u>29,041</u></u>	\$ <u><u>139,815</u></u>

See the accompanying notes to the financial statements.

Owsley County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance
- School Activity Funds
For the year ended June 30, 2015

	SCHOOL ACTIVITY FUND		
	OWSLEY COUNTY HIGH SCHOOL	OWSLEY COUNTY ELEMENTARY	TOTAL
REVENUES			
Student revenues	\$ 193,899	\$ 52,007	\$ 245,906
EXPENSES			
Student activities	195,062	50,738	245,800
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(1,163)	1,269	106
FUND BALANCES BEGINNING	106,820	27,554	134,375
FUND BALANCES ENDING	\$ 105,657	\$ 28,824	\$ 134,481

See the accompanying notes to the financial statements.

Owsley County School District
Statement of Revenues, Expenses and Changes in Fund Balance - Owsley County High School
For the year ended June 30, 2015

	FUND BALANCE BEGINNING	REVENUES	EXPENSES	FUND BALANCE ENDING
ARCHERY CLUB	\$ 459	\$ 256	\$ 230	\$ 485
BAND FUND	699	5,108	3,604	2,203
BASEBALL BOYS	637	1,967	2,398	206
BETA CLUB	177	3,966	4,142	0
BOYS BASKETBALL	190	12,539	8,423	4,306
CC STAFF	5,163	1,334	1,713	4,784
CHEERLEADERS	1,112	8,028	6,702	2,437
CHESS CLUB	-	144	130	14
CLASS OF 2015	2,888	35,190	38,078	-
CLASS OF 2016	331	1,621	-	1,953
CLASS OF 2017	2,404	1,894	-	4,298
CLASSROOM CREATIONS	1,287	-	412	875
CONCESSIONS SALES	-	18,528	18,528	-
D. WILSON MEMORIAL SCH	-	1,000	-	1,000
DESTINATION I.	-	6,403	6,178	225
FFA	781	11,403	10,663	1,521
FARMERS MARKET	1,425	3,377	4,393	409
FBLA	1,148	1,673	2,437	383
GENERAL ATHLETICS	5,809	33,517	34,189	5,138
GIRLS BASKETBALL	580	12,651	10,655	2,576
GOLF	3,705	874	1,645	2,934
ACADEMICS HIGH SCHOOL	184	100	-	284
HEALTH	87	-	-	87
GRANT	339	-	-	339
LIBRARY	3,715	6,686	5,786	4,616
MS BOYS BASKETBALL	550	4,805	3,981	1,374
MS GIRLS BASKETBALL	390	608	650	348
MISC	11,460	6,926	6,297	12,090
NAC	742	320	320	742
PROJECT PROM	11	-	-	11
SCHOOL TO WORK	205	-	-	205
SNACK	4,882	3,897	7,373	1,406
SOFTBALL	1,386	2,142	2,829	699
STEWART MEMORIAL SCH	-	-	-	-
SCHOLARSHIPS	6,601	350	3,506	3,445
TECHNOLOGY	15,376	-	2,409	12,966
TRACK	790	4,798	4,108	1,480
VOLLEYBALL	1,450	1,266	1,823	893
YEARBOOK	1,235	457	1,440	252
YOUTH SERVICE CENTER	18	-	18	-
CD	28,602	69	-	28,672
TOTALS	\$ 106,820	\$ 193,899	\$ 195,062	\$ 105,657

See the accompanying notes to the financial statements.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Owsley County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2015, the District had food commodities totaling \$31,563.

Owsley County School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education				
School Breakfast Program	10.553			
Fiscal Year 14		7760005 14	\$	\$ 36,350
Fiscal Year 15		7760005 15		124,649
National School Lunch Program	10.555			
Fiscal Year 14		7750002 14		82,287
Fiscal Year 15		7750002 15		268,624
Summer Food Service Program For Children	10.559			
Fiscal Year 14		7690024 14		1,368
Fiscal Year 15		7690024 15		343
Summer Food Service Program For Children	10.559			
Fiscal Year 14		7740023 14		13,311
Fiscal Year 15		7740023 15		3,315
Child Nutrition Cluster Subtotal				<u>530,248</u>
Fruit & Vegetable Program	10.582			
Fiscal Year 14		7720012 14		4,259
Fiscal Year 15		7720012 15		22,365
				<u>26,624</u>
Passed Through State Department of Agriculture				
Food Donation-Commodities	10.565			
Fiscal Year 15		510.4950	N/A	31,563
Total US Department of Agriculture				<u>588,435</u>
US Department of Education				
Passed Through State Department of Education				
Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 14		3100002 14	594,569	151,191
Fiscal Year 14M		3100002 14	45,358	14,338
Fiscal Year 15		3100002 15	589,452	446,785
Fiscal Year 15M		3100002 15	44,188	35,292
				<u>647,605</u>
Special Education Grants to States	84.027A			
Fiscal Year 13		3810002 13	193,427	37
Fiscal Year 15		3810002 15	180,558	180,558
Special Education - Preschool Grants	84.173A			
Fiscal Year 14		3800002 14	21,365	19,305
Fiscal Year 15		3800002 15	21,365	9,866
Special Education Cluster Subtotal				<u>209,766</u>
Vocation Education - Basic Grants to States	84.048			
Fiscal Year 15		4621132 15	13,356	13,356
Race to the Top	84.413A			
Fiscal Year 11		3960002 11	28,603	3,107
Rural Education	84.358B			
Fiscal Year 13		314002 13	14,568	9,111
Fiscal Year 14		314002 14	13,499	13,499
Fiscal Year 15		314002 15	15,093	68
				<u>22,678</u>
Improving Teacher Quality State Grants	84.367A			
Fiscal Year 15		3230002 15	103,323	95,157
Passed through Morehead State University				
Kentucky Appalachian Higher Education (KYAHED)	23.011			
Fiscal Year 15		688A	3,261	2,939
Passed through Berea College				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A			
Fiscal Year 14G		3794G	206,530	29,901
Fiscal Year 15G		379AG	154,899	125,214
				<u>155,115</u>
Passed Through Kentucky Valley Educational Cooperative				
Race to the Top - District	84.416A			
Fiscal Year 15		B416A140080	98,145	98,145
Passed Through Berea College				
Promise Neighborhood Step Grant	84.215			
Fiscal Year 11		2011-GW-AX-K006	92,156	49,858
Total US Department of Education				<u>1,297,726</u>
Appalachian Regional Commission				
Pathways to Careers				
Fiscal Year 15	23.002	KY-17904-14	80,000	79,212
Total Appalachian Regional Commission				<u>79,212</u>

See the accompanying notes to the schedule of expenditures of federal awards.

Owsley County School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Commerce				
Passed through Bluegrass Pride				
Pride Grant-Wetlands Project	11.420			
Fiscal Year 15B		270AB	750	747
Fiscal Year 15D		270AD	750	747
Total U.S. Department of Commerce				<u>1,494</u>
US Department of Labor				
Passed Through Middle Kentucky Community Action Partnership				
WIA Year Round Youth Program	17.259			
Fiscal Year 15Y		595AY	17,242	17,161
Total US Department of Labor				<u>17,161</u>
US Department of Health and Human Services				
* Head Start	93.600			
Fiscal Year 15		04CH2596	690,106	516,128
Fiscal Year 15B		04CH2596	690,106	194,046
* Early Head Start	93.600			
Fiscal Year 15A		04CH4797	508,733	396,294
Fiscal Year 15B		04CH4797	508,733	132,259
				<u>1,238,726</u>
Total US Department of Health and Human Services				<u>1,238,726</u>
Total Expenditure of Federal Awards				<u>\$ 3,222,753</u>

* Major program

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

To the Owsley County Board of Education and
State Committee for School District Audits
Booneville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Owsley County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Owsley County School District's basic financial statements, and have issued our report thereon dated November 10, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Owsley County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Owsley County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Owsley County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Owsley County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Owsley County School District, in a separate letter dated November 10, 2015.

In addition, the results of our tests disclosed no material deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the Kentucky Public School District's Audit Contract and Requirements or Appendices.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White & Associates, PSC

Richmond, Kentucky
November 10, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

To the Owsley County Board of Education and
State Committee for School District Audits
Booneville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Owsley County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Owsley County School District's major federal programs for the year ended June 30, 2015. Owsley County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Owsley County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Owsley County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Owsley County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Owsley County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Owsley County School District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Owsley County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Owsley County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

White & Associates, PSC

Richmond, Kentucky
November 10, 2015

OWSLEY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015

SUMMARY OF AUDITOR'S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed For major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Head Start[CFDA 93.600]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No findings at the major federal award programs level.

OWSLEY COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2015

There were no prior audit findings.